DOCUMENT RESUME

ED 271 280 RC 015 849

AUTHOR Smith, Russell L.
TITLE Economic Development Strategies for Nonmetropolitan Areas. Occasional Papers Series No. 85-1.
INSTITUTION South Dakota Univ., Vermillion. Governmental Research Bureau.
PUB DATE Feb 85
NOTE 34p.
PUB TYPE Information Analyses (070)

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Change Strategies; Community Benefits; Community Development; *Community Involvement; *Economic Development; Industrialization; Local Issues; *Policy Formation; *Program Implementation; Rural Areas; *Rural Development; Rural Economics; Rural Urban Differences
IDENTIFIERS Interdependence; Policy Analysis; Policy Makers

ABSTRACT

Rural economic development presents a paradox of growth in population and jobs without corresponding improvement in local economic well-being. Four forces may impede nonmetropolitan development efforts. Growth of multiestablishment corporations makes traditional regional economic development models unrealistic. Rural industrialization is socially, politically, and economically dependent on metropolitan areas. Industry location trends have little to do with rural economic development efforts. Economic impacts of nonmetropolitan industrialization are neither as universal nor as positive as believed. Strategies for successful rural economic development include maximizing local economic linkages such as local purchasing and hiring, encouraging local entrepreneurship, capitalizing on development spinoffs by attracting industries which draw on established local services and products, minimizing direct public subsidies of new industry, and assessing community financial impacts of development proposals. Implications of development impediments and strategies for policy planning are discussed. A four-page reference list is provided. (LFL)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED271280

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

[X] This document has been reproduced as received from the person or organization originating it

[ ] Minor changes have been made to improve reproduction quality

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy

Governmental Research Bureau
The University of South Dakota
Vermillion, South Dakota 57069

Economic Development Strategies for Nonmetropolitan Areas

Russell L. Smith

"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

Governmental Research Bureau

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

Occasional Papers Series

RC015849

Governmental Research Bureau
The University of South Dakota
Vermillion, South Dakota 57069

Russell L. Smith, Director

The Governmental Research Bureau of The University of South Dakota was established in July 1939, by the Board of Regents upon the recommendation of the President of the University and the Dean of the College of Arts and Sciences.

The Bureau has a five-fold mission: (1) to engage in research on public policy and administration issues affecting rural states in general, and South Dakota in particular, and to publish the results thereof; (2) to offer training programs and conferences for public officials with particular emphasis on the state and region; (3) to provide technical assistance to state and local government officials in the area; (4) to disseminate information to individual citizens and citizen groups on governmental issues; and (5) to offer research and training opportunities for students interested in public service careers.

ECONOMIC DEVELOPMENT STRATEGIES FOR NONMETROPOLITAN AREAS

by

Russell L. Smith, Director
Governmental Research Bureau
The University of South Dakota

February, 1985

Governmental Research Bureau, Occasional Papers Series No. 85-1

"Economic Development Strategies for Nonmetropolitan Areas"

Introduction

During the 1970's nonmetropolitan America reversed a long-standing trend of decline as population and employment increases substantially outpaced that of metropolitan areas (Beale, 1981; Till, 1981; Menchik, 1981). Nonmetropolitan population grew by 15.4 percent from 1970 to 1980, and employment grew by 24.4 percent during the 1970-1977 period. Metropolitan areas, on the other hand, posted population and job growth rates of 9.1 and 14.2 percent, respectively, for the same time periods. Despite the fact that nonmetropolitan locations outperformed metropolitan areas by quite a bit with respect to population and job growth rates, nonmetropolitan residents continue to lag substantially in terms of absolute levels of economic well-being. In 1979, for example, nonmetropolitan per capita personal income was 77.1 percent of the metropolitan level of $7,743, and the proportion of persons living in poverty was 135.1 percent of the metropolitan average of 11.4 percent (U.S. Department of Commerce, 1983:1-11). Furthermore, the number of persons who are either unemployed (if discouraged workers are counted) or subemployed is generally acknowledged to be higher than is the case for the metropolitan population (Tweeten and Brinkman, 1978; Briggs, 1981).

Perhaps most important is that changes in nonmetropolitan economic well-being lag substantially behind changes in nonmetropolitan population and employment growth. For example, the nonmetropolitan per capita personal income growth rate of 154.5 percent was only 14.2 percent greater than the metropolitan increase of 135.3 percent. On the other hand, the 1970 to 1980 nonmetropolitan population growth rate of 15.4 percent was 48 percent greater than the metropolitan rate of change (9.1%). Per capita income increases also lagged behind employment increases, with the nonmetropolitan job growth rate (24.4%) exceeding the metropolitan rate of growth by 71.8%. In other cases, nonmetropolitan rates of change in economic well-being have not just failed to match or come close to nonmetropolitan population and employment growth rates, but have actually fallen below those of metropolitan areas. Between 1975 and 1980, for example, total personal income increased by 72.7 percent in metropolitan locations, and only by 69.5 percent in nonmetropolitan areas (U.S. Department of Commerce, 1982).

Although not exhaustive, these data highlight a paradox for nonmetropolitan areas -- growth in population and jobs is substantially exceeding that of metropolitan areas, but changes in economic well-being are not keeping the same pace of growth. Such a paradox, and there are others, presents students of rural development with some interesting problems. For those persons who are interested in promoting the economic development of nonmetropolitan and rural areas one question which begs for an answer is what is keeping nonmetropolitan and rural economic development programs from achieving greater success? This paper addresses this question and identifies strategies which nonmetropolitan and rural economic developers can utilize to better articulate, focus and target their resources.

BEST COPY AVAILABLE

One obvious approach to answering this question would be to review case studies of both metropolitan and nonmetropolitan economic development to identify what seem to be the critical factors associated with the general paradox noted above. Such comparisons might also identify critical differences between nonmetropolitan areas where economic development has been successful and areas where success has yet to materialize. The paucity of numerous, high quality, detailed case studies dictates against such an approach, however.1

A second path -- and one which should precede any aggregate analysis of case studies -- is to draw upon and synthesize the empirical and non-empirical literature on economic development to identify the forces which constrain nonmetropolitan development efforts. Four perspectives articulated in the literature on economic development are drawn upon in this paper to help understand and identify the adaptations which must be made if nonmetropolitan economic development efforts are to be more successful. The first perspective focuses on the growth of the multi-establishment corporation. These large business enterprises which are located in multiple places now control a majority of U.S. manufacturing jobs, assets and production. Most important, through their location choices, and intra- and interorganizational linkages, these corporations structure regional and community input-output flows and industry linkages in ways that make traditional models of regional economic development unrealistic.

A second perspective which can help highlight the critical aspects of nonmetropolitan economic development examines the rural industrialization process in terms of nonmetropolitan "dependence" upon metropolitan areas. As such, the social, political and economic power relations between metropolitan and nonmetropolitan areas are of interest. This perspective thus helps shed some light on the origins, nature and impacts of traditionally defined urban trends (e.g., industrialization) as they diffuse to nonmetropolitan locations. The thrust of the perspective is that nonmetropolitan-metropolitan relations have evolved in such a way as to foster dependency relations between subordinate and dominant sectors of society. Nonmetropolitan industrialization, then, takes place within this dependency context, and will continue to be underdeveloped, relative to that of metropolitan places unless selective changes are made.

The third literature base focuses on industry location trends and the correspondence between these processes and the nature of nonmetropolitan and rural comparative advantages. The recent growth of industry in nonmetropolitan locations, according to this perspective, has less to do with rural economic development efforts than with the comparative advantages of such locations within the context of evolving industry needs. While significant opportunities exist for nonmetropolitan communities to influence their comparative advantages and thus take advantage of the decentralization of industry, efforts must be targeted.

Finally, the paper draws upon information on the economic impacts of nonmetropolitan industrialization upon residents and communities to help identify potential areas of strengths and weaknesses in these development efforts. In general, the evidence indicates that the economic impacts of industrialization in nonmetropolitan areas are neither as universal nor as

BEST COPY AVAILABLE

positive as popular development rhetoric would lead one to believe. Because "myths" surround economic development impacts, particularly in nonmetropolitan settings, it is important to explore them.

These four perspectives and bodies of literature are treated as discrete and separable; the reality, however, is quite different -- each is intertwined with the others. Each of these perspectives can contribute, however, to a richer understanding of nonmetropolitan economic development and the strategies which are necessary to make scarce economic development resources more productive.

The Growth of Multi-Establishment Corporations and Changes in Regional Development

One major reality of the U.S. economy which has been largely ignored by students and practitioners of nonmetropolitan economic development is the multi-establishment corporation.2 The U.S. economy in general is increasingly being dominated by a limited number of corporations and conglomerates located in multiple places (Pred, 1977). These multi-establishment corporations control a majority of jobs, production and economic assets in the U.S. Furthermore, for these businesses territorial space is flexible and subject to constant competitive and strategic alteration as a result of changing situations. Governmental units, particularly states and their communities, have their authority confined to a very specific and fixed geographic territory, however. These forces work together to create a situation that gives multi-establishment corporations considerable influence over the development and actions of communities and states. Because of their scale, diversity, resources and locational configuration, multi-establishment corporations are structuring regional and community input-output flows, industry linkages and location forces. These impacts are highlighted in the following pages.

Changing Conceptions of Regional Economic Growth

Traditionally, conceptions of regional and local economic development have stressed "growth center" (or "growth pole") and "hierarchical-diffusion" interpretations. Growth center views stress that development at a growth center or pole will result in a concentration of employment multipliers and other effects within a city and its surrounding hinterland (Boudeville, 1966; Earickson, 1975). The growth pole view thus sees the growth impulses of communities as largely contained within the region; growth impulses are transmitted from the growth center to smaller towns in the same region. Hierarchical-diffusion interpretations of economic development stress that growth spreads on an inter-city basis primarily through the trickling down of innovations through the urban hierarchy (Thompson, 1965). Thus, economic innovations are adopted by the largest metropolitan centers and diffuse to middle and lower-order metropolitan centers. Once an innovation has begun diffusing on an interurban basis, growth impulses diffuse downward within the region surrounding metropolitan centers (Berry, 1973).

BEST COPY AVAILABLE

While these interpretations of economic growth were undoubtedly appropriate at a certain point in time, rural and urban economists and ecologists are beginning to recognize that it makes more sense to study organizations -- particularly multi-establishment corporations and not specific places, regions or economic factors -- as the major units which organize and structure the growth of cities and adjacent areas (Lincoln, 1977; Pred, 1977; Friedland, 1982). This line of reasoning flows from the dominance of the U.S. economy by a relatively small number of large, complex, spatially dispersed business enterprises. As Pred notes, these multi-establishment corporations dominate growth and development processes because

> they are the most significant implementors of explicit and implicit locational decisions, because they directly account for a majority of job opportunites . . . and because they are the most important propagators of interurban flows of goods, services, specialized information and capital (1977:183).

In general, multi-establishment corporations affect economic growth in at least three ways. One pathway through which multi-establishment corporations affect the economic growth of cities and regions is through their location decisions. Multi-estalbishment corporations generally have at least three organizational levels. Each level, in turn, has its own locational requirements. Top level functions are concerned with strategic and non-routine decisions. Such activities require extensive direct personal contacts, a rich array of supportive business services and access to high quality inter-city transportation. Information-rich locations are thus most likely to attract the top-level control functions of corporations and conglomerates. As Lloyd and Dicken (1977) note, 25 cities contain the headquarters offices of 407 of the leading 500 industrial corporations in the U.S. Furthermore, 63 percent of the headquarters are located in only nine cities.

Second-level corporate activities focus on more routine administrative functions. While such activities also require information-rich locations, the tendency is less pronounced than is the case for top-level functions since telephone and written communications are more acceptable for this level. Still, such needs can typically only be met in population centers of some size. These second-level units may be located in the suburban fringe of a central city where the corporate or conglomerate headquarters is located or they may be located in sizeable population complexes in other regions of the country, depending upon the product, marketing and administrative strategies characterizing the unit (Pred, 1977:118).

Production-oriented units of multi-establishment corporations are the most "footloose" units of the organization. They may be found in nonmetropolitan and metropolitan cities of widely varying sizes, depending on the plant and unit's locational requirements. Specific locational issues are discussed in a later section.

More pervasive influences upon economic growth are exerted by these multi-establishment corporations through intra- and interorganizationally generated inter-city linkages. Many large corporations are involved in

BEST COPY AVAILABLE

producing goods and services in both industrial and non-industrial sectors. This often permits corporations and conglomerates to develop input and output links between various units and sub-units of the larger organizational entity. For example, some corporations are vertically integrated; the corporation may own a steel production company, as well as ore mines and ships for transporting the ore to processing sites. Other multi-establishment corporations are horizontally diversified. Thus, a corporation involved in large-scale real estate development may also own banking and construction businesses. Such characteristics result in a number of linkages and multiplier effects between cities as multi-establishment corporations "do business" with different sub-units and divisions that are part of the larger corporate entity.

Interorganizationally generated linkages and multipler effects are also critical to understand. As Pred (1977) notes, changes in transportation and communications technologies have facilitated both the rapid movement of goods, as well as the transmission of specialized information, financial, insurance, and other business services over long distances. New technologies have also increased interorganizational interdependencies by fostering greater production specialization, thus necessitating more elaborate input-output relationships for any given facility.

When coupled with the spatial characteristics of multi-establishment corporations, the increasing intra- and interorganizational linkages of the modern economy result in a considerable part of the goods and services linkages for most cities and areas occuring with non-local organizations outside the home region. Robinson, for example, found that around 50 percent of total expenditures for goods and services for most metropolitan areas are for goods and services produced outside the region (1969). In a study of manufacturing companies in the Dallas/Ft. Worth, Texas area, Rees (1978) found that 68 percent of the materials purchased by the manufacturing companies came from outside the metropolitan area, and 60 percent came from outside the West South Central census region containing Texas, Oklahoma, and Arkansas. Rees also examined the backward (input) linkages of one large defense contractor in the DallasFt. Worth metropolitan area. Over a two year period he found large changes in the spatial configuration of the linkages. On total purchases of $237 and $393 million in the two years, procurement from California grew from 13 percent to 42 percent of total input purchases. Procurements from Connecticut, however, declined from 28 percent to 5 percent.

Any given city, then, will have a number of interdependencies with other cities and regions as a result of the growth and dominance of multi-establishment corporations. Because these businesses control capital, labor, and production; because they have an extensive organizational network to help in the production, marketing, and distribution of their goods and services; and because of their administration, information and coordination needs, these corporations will rely on areas and cities outside any given locality where they operate.

In this regard, nonmetropolitan cities and areas will have a much greater non-local interdpendence than metropolitan communites because of their smaller and generally less diverse economy. Furthermore, economic growth for nonmetropolitan towns and cities will not be a function of an

BEST COPY AVAILABLE

adjacent or nearby metropolitan area, or even of the region the nonmetropolitan city is in. Rather, growth will largely be a function of the linkages which local businesses have to organizations in other cities in other regions (Pred, 1977:108). This is a product of the fact that a given multi-establishment corporation is likely to have job-control linkages through its plants located in other metropolitan areas and the smaller towns in the hinterlands. The implication of these relationships is that investment and activity increases in a given locality are likely to have both intraorganizationally and interorganizationally-based multiplier effects that take place in other areas (Pred, 1977:116).

In summary, the structure of city and area interdependencies resulting from the intra- and interorganizational relationships of multi-establishment corporations is complex. It is becoming increasingly clear, however, that the economic dominance and spatial diversity of such business organizations is resulting in most cities and regions finding that a substantial portion of their growth impulses are a function of activities in other regions and cities. This contrasts with traditional views of regional and urban development which have stressed "growth center" or "growth pole" and hierarchical-diffusion conceptions of development.

Dependency Perspectives of Nonmetropolitan Development

For years, theories of metropolitan dominance have had a prominent place in thinking about regional economic development. However, metropolitan-hinterland relationships have generally been visualized as involving mutual interdependence more than outright dominance or exploitation (Duncan, et al., 1960:84). Accordingly, the development of interdependencies through trade and employment with metropolitan areas has been seen as the route by which small nonmetropolitan communities gain access to the higher level of productivity and resources of the entire economic system (Hawley, 1950:225).

In recent years, an alternative interpretation of the metropolitan-hinterland relationship has developed around the notion of metropolitan dominance, or hinterland dependence. This latter perspective emphasizes that when market economies prevail, the development of regions will be uneven and that metropolitan areas will develop at the expense of the hinterland. Metropolitan areas are thus seen as being centers for capital and the control of production and resource development functions which may be assigned to nonmetropolitan locations (Gras, 1922). Positive benefits, or spin-offs, will be utilized more extensively in the metropolis, while negative spin-offs will be disproportionately assigned to the rural area; in this sense nonmetropolitan locations are "exploited."

Galtung (1971) identifies three historical phases of metropolitan domination over the rural hinterland. Colonization, the first, is characterized by the taking of rural resources with no compensation. The second phase involves unequal resource exchanges whereby metropolitan areas derive benefits which are greater than those accruing to nonmetropolitan locations. In this phase, markets for products, for example, are more highly developed in metropolitan locations and are thus more fully

BEST COPY AVAILABLE

utilized; metropolitan locations thus benefit more than nonmetropolitan locations. In yet a third phase, dominant locations utilize spin-off effects of economic processes to maintain power and resources. Thus, technologies resulting from earlier technological advances are retained in metropolitan locations to serve as the basis for new economic activities and productivity advances. Likewise, metropolitan areas export negative spin-offs to the hinterland. The location in rural areas of power-generating facilities serving metropolitan markets is such an example.

As Galtung (1971) indicates, the crux of dependency theory today lies in the superior ability of U.S. metropolitan locations to utilize the "spin-offs" of economic activities. . While the specific implications of this perspective for nonmetropolitan economic development are dealt with in detail later, some general examples follow.

One major spin-off of economic development is profit (Lovejoy and Krannich, 1982). Because so much of the capital for industrialization in nonmetropolitan areas comes from the metropolis, however, small communities are not able to benefit from profits which may accrue as a result of new manufacturing development. Not only is the majority of capital centered in metropolitan-based institutions, but many nonmetropolitan banks and capital organizations are branches or subsidiaries of those metropolitan-based entities. While the ability to capture profits or returns on investments varies by region, nature of the development and the community, to the extent that profits flow back to metropolitan areas, nonmetropolitan development will be at reduced levels.

Nonmetropolitan areas may also lose out in economic development if resources extracted or processed in the hinterland are not owned by local or area residents. This is, for all practical purposes, the reverse of the capital and profit spin-off problem. If resources are owned by non-local corporations, then sales of the resources produces no direct local gain beyond the new jobs and economic activity resulting from job creation.

Economic activities also produce spin-off technologies. For the most part, spin-offs are disproportionately centered in metropolitan locations. Nonmetropolitan areas tend to acquire industrial activities late in the product cycle (Rees, 1980). As a result, technologies are routinized, and the industry is often on a production plateau or even declining. Newly developing technologies and experimental research and development work, on the other hand, tend to be clustered in a relatively small number of metropolitan areas, particularly near corporate headquarters locations. Such activities tend to spin-off new ideas and techniques, thus serving as a "seedbed" for additional economic activity. Because of their small size, diversity and capital, nonmetropolitan areas are not able to utilize such potentials to their fullest.

Another spin-off of new economic development is the multiplication effect of new wages in a nonmetropolitan community. Based upon economic base theory, new export base jobs (jobs associated with producing a good primarily sold outside the area) produce economic waves in communities which create "local" jobs -- jobs associated with many types of services and retailing, for example. To the extent, however, that the enterprise is owned by non-locally headquartered organizations and persons, multiplier

BEST COPY AVAILABLE

effects are likely to be retarded. This is a function of the non-local linkage dynamics explored earlier in the context of multi-establishment corporations, as well as the linkages between the local production unit and control units in the metropolis. Such a structure often means that purchasing and other spending decisions and actions are made non-locally. Just as important, the smaller number of control functions located in nonmetropolitan places acts to reduce the number of higher paid professional and managerial employees. This dampens the impact of new nonmetropolitan industrial installations since the standard multiplier effects are based upon industrial activities in a metropolitan context -- activities that generally contain a larger compliment of managerial and professional employees.

Finally, some new industrial or economic activities involve negative spin-offs such as air, water or land contamination and degradation. To the extent that this occurs without compensation to the nonmetropolitan area beyond new jobs, the development may produce net economic and non-economic losses to the developing area.

Typically, metropolitan dominance perspectives have taken the form of positing hinterland dependence upon a metropolitan center or centers within a region. Given the knowledge we have of how multi-establishment corporations have altered intra- and interregional economic exchanges and flows, it is more reasonable to posit a more general non-metropolitan dependence upon metropolitan areas. The critical unit of analysis -- according to the multi-establishment perspective -- is not geographic, it is the modern corporation and conglomerate.

To understand metropolitan dominance today, then, we should not look so much at trading and other economic linkages within a region, but at the division of labor in modern business structures and the co-occurrence of this with metropolitan and nonmetropolitan locations. As noted earlier, the secondary coordination and tertiary production functions of multi-establishment corporations have become more "footloose" in recent years, but the control functions of these business enterprises remain centered in large metropolitan areas. Pappenfort (1959)and Lieberson and Allen (1965) indicate that, within industries, metropolitan areas are characterized by greater centralization of administrative offices than production components. Likewise, Winsborough (1960) found that employment in clerical tasks increases with city size and that employment in operative occupations declines.

More recently, Rees (1980) has indicated that while manufacturing employment has decentralized from metropolitan to nonmetropolitan areas, employment relating to control and organizational maintenance remains in the metropolitan centers (even though there has been a decentralization of control functions from "Frostbelt" to "Sunbelt" metropolitan areas). Information on recent changes in metropolitan and nonmetropolitan employment are also indicative of this continuing metropolitan-nonmetropolitan division of labor. During the 1970-1977period, metropolitan manufacturing employment declined by 1.6 percent, while growing by 15 percent in nonmetropolitan areas. Despite the overall decline in manufacturing employment in metropolitan locations, manufacturing professional and managerial employment increased by 14.1

BEST COPY AVAILABLE

percent during the same time period; numerically, professional and managerial employment increased by 340,000 in metropolitan locations and by only 171,000 in nonmetropolitan areas (U.S. Department of Commerce, 1978). Another perspective of the maintenance of control functions in metropolitan areas is provided in a study of corporate disinvestment trends during the 1977-1982 period, which found that manufacturing corporations were much less likely to reduce employment in the metropolitan area where the headquarters was located than elsewhere in the U.S. (Sheets, Smith and Voytek, forthcoming, 1985).

Thus, while economic linkages are no longer primarily characterized by a regional hierarchy or even an interregional hierarchy, the control functions are, and continue to be, centered in metropolitan locations. Whether or not the flow of causality is on the order of exploitation of the hinterland by metropolitan areas is not as well documented as might be preferred. The perspective has potential utility, however, in that it does alert economic developers to fundamental features of today's nonmetropolitan economy, and it can help put lagging nonmetropolitan economic performance in perspective.

In summary, the nonmetropolitan dependency perspective alerts us to the possibly exploitative and development-dampening effects of metropolitan-nonmetropolitan interdependencies in today's advanced industrial economy. The important points in regard to this perspective are several. First, control functions are largely centered in metropolitan areas. Second, metropolitan places have a superior power to effectively utilize the spin-offs of economic development to their advantage. Nonmetropolitan places must thus act to minimize the negative, and maximize the positive spin-offs of economic development. While this is difficult in today's complex economy and industrial structure, it is imperative that nonmetropolitan communities identify potential and actual spin-offs, measure their local utilization, and take corrective action, where possible.

Nonmetropolitan Manufacturing Location Trends

Industrial jobs are vied for because they have the potential to provide more employment and bring in new income for nonmetropolitan communities. Generally, it is hoped that more jobs and increased incomes will reduce outmigration and improve individual and community economic and social well-being. Although industry attracted to nonmetropolitan places has typically paid wages below the national average for all manufacturing industries, the wages have tended to be higher than is the rule for small towns in nonmetropolitan areas (Tweeten and Brinkman, 1976). Higher incomes, coupled with reduced outmigration, result in a greater support base for service and retail establishments, as well as governmental services, so the traditional export base theory argues.

For these reasons, as well as others, industrial development has typically been selected as the primary route to economic development in nonmetropolitan locations.3 Yet, as one might guess, the success of nonmetropolitan economic development programs has been mixed. In fact, there is much evidence that the general growth of nonmetropolitan

BEST COPY AVAILABLE

manufacturing employment has been a function of broader forces of economic decentralization rather than federal, state, or local policies designed to promote such growth. But, within nonmetropolitan America, some communities have grown while others have not. Are there factors which can be associated with the differential success of these communities? The literature on industrial location provides some good clues.

Structural Processes of Manufacturing Decentralization

Rees argues that at least four types of industrial decentralization processes have been underway in the U.S.: (1) an international movement involving shifting production from American to foreign locations; (2) an interregional movement involving the diffusion of manufacturing employment from the core manufacturing region (North Central and North East census regions) of the country to periphery regions; (3) suburbanization involving the spread of manufacturing throughout metropolitan areas, particularly in outlying fringe locations; and (4) nonmetropolitan shifts (1980). Rees argues that ". . . market mechanisms, working through structural changes brought about by new technology, have played significant roles in these industrial decentralization processes" (1980:145).

In general, the factors important in understanding interregional shifts in industry employment in the U.S. are also useful in understanding the shift to metropolitan areas. Among the most important are the use of underemployed females who are in the labor force, lower wage rates, the existence of a strong work ethic, lower levels of unionization, lower cost land, and improved communication and transportation networks.

Product life-cycle processes also underlie much of the movement of industry to nonmetropolitan locations in the last two decades. As developed by Vernon, the product cycle model posits that products evolve through three distinct stages. First is an innovation stage where a new product is manufactured in the home region of the business enterprise and introduced in new markets through "exporting." The second phase is characterized by growth in external demand which ultimately leads to direct investment in production facilities and routinization of production technology. "Standardization" characterizes the third stage and is typically manifested in shifting production to low-cost locations. The importance of these stages for understanding nonmetropolitan manufacturing job growth lies in the geographic patterns of product cycles; the product innovation stage is generally carried out in technology-rich areas in or near large metropolitan locations, while standardization favors lower cost nonmetropolitan places.

In summary, then, much of the growth in nonmetropolitan manufacturing employment has come as a result of broader processes of decentralization including the pull of demand in peripheral regions and the search for lower cost production factors. It is doubtful that the major impetus for nonmetropolitan manufacturing job growth has been the incentives (whether they be financial, land, buildings or labor training) offered by rural onomic development programs. This is substantiated in large part by studies of specific plant location decision processes.

The Dynamics of Industry Location in Nonmetropolitan Areas

BEST COPY AVAILABLE

Tweeten and Brinkman (1976:230-231) note that nonmetropolitan areas received the majority of new employment in 19 of 21 two-digit manufacturing industries from 1947-1967. Perhaps most important, the nonmetropolitan share of total national employment increased during this same period in 11 of the 21 manufacturing industries (textiles, apparel, furniture, chemicals, petroleum refining, rubber products, primary metals, electrical machinery, transportation equipment, instruments, and "miscellaneous"). In an analysis of Dun and Bradstreet data for the 1970's, Schmenner (1982) found that nonmetropolitan areas gained in their share of total national employment in each of nine broad manufacturing industry groups. Industries especially prevalent in nonmetropolitan areas were "Forest-Tied" (lumber and paper) and "Labor-Rate Sensitive" (textiles, apparel, furniture, leather, household appliances, electric lighting and wiring, and radio and television receivers) industry groupings. Two industry groupings were rather evenly distributed across metropolitan and nonmetropolitan locations ("Agriculture-Tied" and "Heavy Chemicals/Oil/Rubber/Glass"), while the remainder were tied to metropolitan locations.4

Most business site selection processes involve regional and then local analysis components. Evaluations typically revolve around a comparison of the costs and benefits of alternative sites. Among the items frequently examined are site and site preparation costs; equipment costs; labor and fringe benefit costs; start-up costs (training and initial production inefficiencies, for example); working capital requirements such as inventories, materials and accounts receivable; freight (in and out) costs; taxes; workmen's and unemployment compensation payments; relocation expenses of managers and other employees to be moved; and a forecast of expected revenues to be generated through the new plant (Schmenner, 1982:31). While the level of detail and sophistication involved in developing this information varies across business establishments, assembly of the data usually requires repeated iterations. Most companies feel satisfied with their process, however, because they simplify the early stages of the selection process by using "checklists" and other short-hand approaches to identifying regions and, ultimately, sites.

An initial focus by companies is on the "musts" -- things that have to be present at the new location in order to be competitive and make a profit -- as opposed to the "wants" -- things that are desirable, but which can be foregone if the "musts" are compromised too much. These factors are a product of a company's prevailing multiplant manufacturing strategies and the primary operational costs which are related to location (Schmenner, 1982:37). Six requirements are dominant in the site selection process:

--labor costs

--labor unionization

--proximity to markets

--proximity to supplies and resources

--proximity to other company facilities; and

--area quality of life.

BEST COPY AVAILABLE

Despite these general tendencies, and they are just that, it is extremely difficult to pinpoint the exact impact of a single factor on a company's location decision process. Manufacturers see themselves as being constrained in their location search in widely varying ways. Labor costs are more critical to some industries than to others. Proximity to markets is a major consideration for some, but not for others. The competitive advantage which might accrue to a nonmetropolitan community as a result of shifting the cost, availability, or quality of a given factor (through the local economic development program), then, depends on which areas the community is being compared to, the strength of changes brought about by the shift, and the companies and industries which might be affected by the shift.

As indicated earlier, the first phase of the site decision process focuses on identifying a region or state in which to locate. Among the most important "musts" at this point are labor climate and market proximity. While over 75 percent of the new or relocating plants surveyed by Schmenner (1982)indicated labor climate as an initial must, there were industry variations. As might be expected, Cost-Sensitive industries rated this very high. Industrial Machinery and Transportation, Heavy Metalsand Specialty Chemicals/Metals also rated this factor as a critical must. Labor climate was less important to Forest- and Agriculture-Tied plants. Market proximity was rated by 55 percent of the plants as a must in the initial stage. Again, variations exist across industry groupings, with Market Sensitive industries (food processing, paper converting, printing, plastics fabrication, can making and miscellaneous manufacturing) placing greatest weight on this factor. Labor cost-sensitive industries, dealing with specialized products with wide geographic distribution were not as concerned with market proximity, on the other hand. Around one-third of the plants rated quality of life, proximity to inputs/supplies, and low labor costs as important musts in the first stage of the location decision process (Schmenner, 1982:152). Similar findings are reported by other researchers (Summers, et al., 1976).

In the second phase of the location process, attention focuses on local or site-specific factors. Across all industries, rail service, proximity to an expressway or interstate and utilities were listed by at least one-third of the plants as site "musts." Again, there are variations across industries, as might be expected. Most frequently mentioned as "desirable" site-specific factors were favorable labor climate (74%), low land costs (60%), proximity to markets (42%), low taxes (35%), on an expressway (35%), rail service (30%), and low wage costs (28%). Rated low were government financing (13%) and available land and buildings (3%) (Schmenner, 1982:151).

In thinking about these location factors, two broad categories can be identified -- factors under community control and factors not under community control. Proximity to markets, proximity to supplies and resources, proximity to other company facilities, transportation networks, federal and state development-related policy, and certain other factors are not typically under community control. As Tweeten and Brinkman (1976) note, these factors can be exploited, but they must usually be accepted by the community. Community controlled factors include the cost and availability of land and buildings, taxes, public services, financial and

BEST COPY AVAILABLE

other development incentives, and aspects of the local labor force (only partially controllable).

While some of the most important "musts" are out of the control of communities, hard work in supplying accurate and detailed information on community-controlled factors can overcome deficiencies in other areas. In a study of development in Southeast Kansas, Brinkman (1973) found that more than one-half of new plants indicated that factors under the control of communities were critical in the final site selection. Tipping the scales were the existence of community facilities for business operation (buildings, land, utilities), financial assistance (most often adequate private financing at unsubsidized rates), and positive community attitudes toward business and private enterprise. Similar findings are reported by Shaffer and Tweeten (1974) and by Schmenner (1980). Overall evaluations, rather than evaluations of individual location factors, are generally most influential in final site selection decisions.

In summary, there are a number of important points made in the literature on industry location decisions which are relevant to efforts to increase nonmetropolitan manufacturing. First, broad forces of economic decentralization have been and continue to be at work. Because of the importance of cost and other factors associated with nonmetropolitan location (e.g., a nonmetropolitan comparative advantage), some nonmetropolitan communities will be the locational choice of industry without doing anything. While these communities will likely be overwhelmingly located in the growing Sunbelt areas where cost, market and labor climate advantages co-occur, there will be some nonmetropolitan growth in every region, even if there is no emphasis upon economic development. Second, the locational decisions of manufacturing enterprises have commonalities and permit targeted recruiting efforts if industry-specific locational needs and local-area comparative advantages are understood by nonmetropolitan community economic development decision makers. While site selection specialists and manufacturing corporations have built-in biases in regard to locational issues, these forces can sometimes be overcome by sound and detailed local-area planning. Third, while non-community-controlled factors are generally most critical in the location decision, communities can overcome deficiences (where they exist) by working hard on factors under local control.

In particular, nonmetropolitan communities can seek to create a climate conducive to business by ensuring quick and professional permitting and regulatory clearances, and by helping with the infrastructure and capital improvements needs of potential new industry. In small communities where these things are generally easy to do anyway, having a well coordinated development effort with an identifiable contact person or position can facilitate community-industry efforts. Overall community appearances and public services are also important. Working with area vocational schools, community colleges and state and area job training programs to develop "customized" training for new business can be a useful tool as well. Such labor training efforts are rated as important in states where they are used (Schmenner, 1982; Eichner, 1970). Training can be critical in acquiring industry with higher skill needs, and thus, higher wages. This could help nonmetropolitan communities break out of the low skill, standardization, declining/stable industry syndrome that is so often prevalent in these

BEST COPY AVAILABLE

areas. In fact, recent research by Rees (1980) indicates that periphery and nonmetropolitan areas of the U.S. may be receiving manufacturing facilities earlier in the product cycle -- a factor which will be important in future income gains. This shift probably is in response to the upgrading of the nonmetropolitan workforce, as well as the maturing of metropolitan centers in periphery areas of the country.

In addition to working with the state capitol to enhance the business climate of the state and the quality of the workforce, these probably represent the actions which communities in nonmetropolitan areas can most effectively and efficiently undertake. There is, however, a widespread perception in nonmetropolitan (and metropolitan) areas that economic subsidies, in the form of tax abatements and reductions, free or low cost land, and buildings, are necessary to attract industry. While this is sometimes necessary and can "tip the scales" in a community's favor, all too often subsidies represent a case of "supply creating its own demand." Despite the voluminous information on the general lack of importance of financial subsidies in industry decisions (Summers, et al., 1976; Harrison and Kanter, 1978; Schmenner, 1982), communities continue to offer a wide range of them. There is no doubt that some subsidies are needed and efficacious, but most are simply taken advantage of because they are made available. The rush to subsidize industry is a function of nonmetropolitan desire for development, as well as business desire to add to the "corporate surplus" (Smith, forthcoming, 1985; Bachelor, 1982). Subsidies must be carefully costed out.

Several caveats must be noted. In recent years, a growing number of people have been arguing that economic development efforts should focus more on helping new businesses start up and existing small businesses to expand. Thus, rather than chasing after the branch plants of multi-establishment corporations, we should focus on the existing economic base and would-be entrepreneurs. This new perspective has largely developed around the work of David Birch (1979).

In wrestling with the disparities in employment growth that are so painfully visible across the country, Birch found that when he looked at the underlying dynamics or components of employment change (rather than net change), that most places tend to lose relatively equal proportions of their employment base each year through business closures and contractions. Thus, if we view jobs as water in a bath tub, we can see that most areas lose about 50 percent of their job base every five years. To quote Birch, "Differences between water levels and the tubs must depend almost entirely on how fast the faucets filling the tubs are running. That is the rate at which new replacement jobs are being generated" (1980:230). Who makes the decisions about replacement jobs? For any given area, Birch found that small (e.g., 20 or fewer employees), young (e.g., four years or less) establishments generate around 80 percent of the replacement jobs. Employment growth, then, is very much tied to job generation capacities of small, young, existing establishments and the development of new establishments.

In general, Birch's advice is sound. It is sound, however, not because of the overwhelming importance of small business to employment growth. Instead, it is sound because it recognizes the potentially destabilizing

BEST COPY AVAILABLE

influence of too heavy a dependence upon branch plants for a given community or area. In fact, reanalysis of Birch's Dun and Bradstreet data for the 1969-1975 time period indicated that many of the "small" establishments creating jobs were actually branches or subsidiaries of corporations and conglomerates (Odle and Armington, 1982). When assigned their parent company's employment total rather than the employment for the local branch or subsidiary, the job generating differences between small and large establishments largely disappeared. Efforts to develop nonmetropolitan manufacturing employment, then, must focus on recruiting as well as nurturing new production ventures and existing operations. Particularly important are locally owned enterprises which are likely to be more responsive and loyal to community needs. Such companies are also more likely to emphasize hiring employees locally and purchasing production inputs locally, where feasible. Each of these tendencies enhance multiplier effects.

Finally, nonmetropolitan conceptions of what constitutes "basic" or export industry must become richer. Many service activities (e.g., business services, health and nursing care) will draw income to a community. In fact, for many communities in the largely agricultural areas of the Great Plains, the development of services for the far-flung and sparsely settled farming and ranching lands is often the most viable option for development in the future. Larger cities have taken away much of the shopping and retail trade. Nonmetropolitan communities must also try to capitalize on notable historic sites by tying attractions into tourism trade. Relatively small expenditures on historic resources can increase the economic impacts of tourism (Mintier, 1983:18; Putz, Waite, Jahr, 1979) which in itself is a major (if not the major) industry in many nonmetropolitan states and areas. Finally, communities must attempt to identify and develop strategies which incorporate cash transfer payments into their economic development efforts. As Hirschl and Summers (1982) note, nonmetropolitan communities are not simply centers of production and consumption. They are also areas where cash and commodities circulate; the process of circulation, whether it be fueled by income from jobs or by income from transfer payments, determines the nonbasic sector.

The Impacts of Nonmetropolitan Industrialization

As indicated in the previous section, nonmetropolitan economic development efforts are predicated on the assumption that jobs will be created for community residents, that incomes will rise, that population growth will occur, and that trade will be stabilized or grow. Do these impacts materialize once industrialization takes place? If not, why? These are the questions that are addressed in this section.

Looking first at the economic impacts upon nonmetropolitan residents, we see mixed effects. For farm families the impacts are very positive. Hathaway (1963), for example, indicates that new non-farm manufacturing employment not requiring a change in residence is beneficial to local agriculture, as well as to farm incomes. Non-farm jobs help farmers stay in agriculture, and at the same time result in significant improvements in the level and stability of farm-family income, even if the manufacturing

BEST COPY AVAILABLE

wages are relatively low. Likewise, if nonmetropolitan jobs go to the spouse and other members of the farm operator's family, income levels are raised.

Thus, although frequently overlooked in nonmetropolitan economic development strategies, adding what might often be viewed as "marginal" manufacturing jobs (e.g., subject to cyclical or seasonal demand and work load, low wages, low skill level, part-time work) -- the types of jobs that nonmetropolitan areas have a comparative advantage for -- can produce sizeable benefits to towns when the jobs go to local farm operators and their family members. Research has found the decline in farm numbers to be related to off-farm employment, among other factors (Larson, 1981). Furthermore, the decline in farm numbers is related to the decline of many nonmetropolitan communities. In South Dakota, for example, Smith (1985) found that counties with the largest farm declines during the 1960-1980 period also recorded the largest population declines during the same time period. The ability of counties and communities to counter the negative population effects of farm declines, in turn, was related to the existence or proximity to an urban center and the number of non-farm jobs.

The effects of nonmetropolitan manufacturing employment growth upon non-farm community residents are generally less positive than is the case for farm families, and certainly less than the idealized impacts envisioned in traditional economic base theory. One important finding is that the actual number of jobs going to local nonmetroplitan residents is often quite small in comparison to the number of new jobs created. Frequently, new jobs go to in-migrants, commuters, and new entrants to the labor force (Summers, et al., 1976). One important factor explaining this outcome is the level of skill required by a new production facility. Gray, for example, found that a new Kaiser Aluminum Company plant in West Virginia produced only 600 jobs for local residents when it opened in 1957 (1969). The remaining 3400 jobs at the facility went to more highly skilled non-residents. While the proportion of jobs going to local residents in this case might be lower than normal, the important point is that the greater the labor force-skill mismatch, the greater will be the loss of employment multipliers. Thus, a low-wage, low-skill plant might actually result in greater local employment multiplier effects if it hires a larger proportion of the unemployed or underemployed in the local labor force. On the other hand, unless the skills of the local labor force are improved, the likelihood of attracting high-skill, high-wage operations is reduced accordingly.

Perhaps one of the most comprehensive summaries of the economic, population and related impacts of nonmetropolitan industrial job growth yet completed is that of Summers, et al., (1976). Among the most important impacts of manufacturing job growth are:

--population generally grows in the site community and is fueled by increased in-migration and decreased out-migration;

--while the outflow of young adults is often not stemmed, new young adult in-migrants take their place;

--most in-migrants move from no further than 50 miles,

BEST COPY AVAILABLE

but generally commute for a period before moving;

--a number of workers at the facility will commute from distances as far as 100 miles;

--most new jobs do not go to the local unemployed, underemployed, minority group members and persons at or below the poverty level, particularly if the new jobs are not low-wage or low-skilled jobs;

--anticipated benefits genrally exceed perceived benefits once development has taken place; and

--overall, evaluations of economic development in nonmetropolitan communities are positive.

Research also indicates that the per capita income of community residents is typically increased in nonmetropolitan communities as a result of industrialization. The distribution across different groups is not universally positive, however. Only a minority of poverty level workers get new jobs (USDA, 1972; Deaton and Landes, 1978); although when they do receive jobs, these residents tend to escape poverty status. This tendency is primarily a function of the greater opportunity for multiple-job holding, rather than higher wages in a primary job resulting from industrialization (Till, 1981). Furthermore, while overall income inequalities in the community tend to be reduced (Shaffer and Tweeten, 1974), some groups may actually be worse off in a relative sense after manufacturing job growth (Clemente and Summers, 1973).

Community fiscal impacts are also mixed. The hope that new industry will boost nonmetropolitan community tax revenues, thus holding the lid on taxes for homeowners, or possibly enhancing services, is rarely fully realized. Instead, the costs of industrialization to the community government(s) tend to be greater than expected. Summers et al. (1976) indicate that community fiscal resource base increases are often canceled by the rising costs of providing services to the industry and town. When net fiscal gains do accrue to the nonmetropolitan community, it usually occurs as a result of no subsidy being given to the industry, the preponderance of workers were hired locally, large proportions of the plant work force live outside of town and commute to work, or community services were substantially underutilized and thus inefficient.

One of the best analyses of the community fiscal impacts of manufacturing employment growth is Brinkman's (1973) study of Parsons, Kansas. After tracking the impacts of plants locating in Parsons during the 1960-1970 period, Brinkman found gains to local residents through increased personal income, as well as increased income to local merchants through sales for shopping and trade goods. Both the city government and the school district lost roughly $330,000 each, however, due to financial incentives given to the new industries. The result was a net overall loss to the public sector. The private sector, on the other hand, benefited through employment and income gains. The work of Shaffer and Tweeten (1974) produced similar findings. When coupled with the earlier information on the lower relative importance of financial inducements in

BEST COPY AVAILABLE

business location decisions, the net loss to the public sector as a result of industrial growth is unfortunate and can reduce the overall effect of new job growth in communities.

Nonmetropolitan Economic Development Strategies

This paper began by noting a paradox of nonmetropolitan economic development -- growth rates in nonmetropolitan economic well-being are not exceeding growth rates in metropolitan well-being by the same margin as is the case for population and employment growth. Answers to this paradox were sought in selected aspects of the literature on economic development, particularly as it pertains to nonmetropolitan areas. Although additional sorting through is required, some strategy options are relatively clear. This section delineates what, at this first cut, appear to be the significant strategy implications. The focus is on locally controlled actions. Although state and federal governments have both leadership and supportive "niches" to fill in the nonmetropolitan economic development process, recent history indicates that local initiative and action will be most likely to lead to success. The relative weight to be placed on recruiting, as opposed to establishment retention or start-up efforts is also not addressed. Nor is the range of economic development goals, program options, organizational frameworks, and planning and targeting methods discussed. For an overview of important considerations for small communities in these areas see Gudell and Smith (1984).

In general, the paradox of the "lagging" nonmetropolitan economy appears to partly be a function of how modern economic institutions structure economic exchanges and growth, and partly a function of the nature of nonmetropolitan areas. While nonmetropolitan economic developers can't easily alter the behavior of multi-establishment corporations and metropolitan institutions, they can take steps to minimize the negative effects of such realities. Local action must be based upon a sound understanding of the broad forces and relationships enmeshing nonmetropolitan areas, as well as knowledge of how these interact with the dominant characteristics of nonmetropolitan economies, particularly their small size, lack of economic diversity, and the lack of agglomeration economies.

A primary reason for the lag in nonmetropolitan economic well-being would appear to lie in the employment, income and other "leakages" from nonmetropolitan communities undergoing economic development. Because of these leakages, development multiplier effects are dampened. While leakages are also a significant problem in metropolitan areas, this phenomenon appears to be more acute in nonmetropolitan communities. The smaller the economic area, the greater the leakages because of the lack of scale and agglomeration economies, as well as a general lack of diversity. This general susceptability of nonmetropolitan communities to leakages of employment, income and other economic development multipliers is exacerbated by aspects of today's economy, most notably the multi-establishment corporation and the superior ability of metropolitan areas to utilize the spin-offs of economic development, thereby relegating nonmetropolitan areas to a dependency status.

BEST COPY AVAILABLE

Multi-establishment corporations enhance the leakage tendencies of small, nonmetropolitan economies by the fact that such business enterprises control a majority of U.S. manufacturing jobs and economic resources, and because they have job-control linkages through plants located in regions and towns outside the local area. Because these corporations control capital, labor and production; because these businesses have extensive oranizational networks to help in the production, marketing and distribution of goods and services; and because of the information, administrative and coordination needs of these enterprises, areas and cities outside a given locality where they operate will be relied upon. Employment, activity and economic investments at a given local site, then, will have multiplier effects elsewhere. As indicated earlier, this general tendency is enhanced in small, nonmetropolitan settings because of their economic scale and size.

Dependency perspectives of nonmetropolitan economic development provide additional insights into the complex process of leakage. Nonmetropolitan areas, this perspective argues, are not able to take advantage of the spin-offs of development. This is a function of the biases and power of metropolitan places, as well as the small size and lack of diversity and agglomeration economies in nonmetropolitan areas. The result is an increased rate of leakage, with metropolitan places accruing extensive benefits from economic activities located in nonmetropolitan areas. Nonmetropolitan economic growth and development is "underdeveloped," relative to that of metropolitan places, because of these dynamics.

Another likely cause of the lag in nonmetropolitan economic well-being lies in the continued use of financial incentives to spur development. Although the preponderance of the industry location literature indicates that financial incentives are rarely necessary to recruit a new manufacturing facility, the desire for industrial growth, knowledge that other communities are doing the same, and the tendency of business enterprises to take advantage of "something for nothing" fosters the continuation of such practices. While there is no evidence that nonmetropolitan locations utilize financial subsidies more than metropolitan communities, small, nonmetropolitan towns must make a greater level of effort to match large community or metropolitan bids for the same industry. This is a function of the smaller number of residents and existing businesses to allocate the costs to. When coupled with multiplier leakages, direct development subsidies in nonmetropolitan areas are likely to result in net public sector fiscal losses, further reducing personal income available for other uses.

Finally, economic development impacts may lag in nonmetropolitan areas because manufacturing activities locating in such places generally have not included the full range of production, managerial, professional and clerical workers found with manufacturing operations in metropolitan and urban locations. These patterns are a function of the location needs of multi-establishment corporations. The impact is such that the multiplier effects of industrial development are reduced.

Given these constraints upon nonmetropolitan economic development, what strategies might produce greater success? Among the most obvious strategies, three are particularly noteworthy. The first emphasizes the

BEST COPY AVAILABLE

development of local economic linkages; the second emphasizes capitalizing on the spin-offs of economic development; and the third emphasizes the use of development financing techniques that minimize the use of direct subsidies drawing upon general tax dollars.

Maximizing Local Economic Linkages

Among the specific actions that can be taken to maximize the development of local linkages, thereby reducing the potentially negative effects of non-local linkages, are the following. First, nonmetropolitan communities can work to ensure that local enterprises -- both public and private -- purchase their production inputs locally, particularly from locally owned business and industry. While this option may be quite limited in the smallest communities, a large proportion of nonmetropolitan areas could take advantage of this. In many towns, the public sector is one of the largest, if not the largest, employers and purchasers of goods and services. Whenever possible, purchases should be made locally, thus maximizing the multiplier effect of the share of personal income going to support the public sector. Where size is a problem, the development of area or regional purchasing cooperatives which act as the "wholesaler" should be explored. Such cooperatives could provide a small number of jobs, but more importantly, can result in tax savings as a result of their greater buying scale. This can keep more income in the pockets of local residents for circulation in the local economy.

Local private business must also encourage local purchasing and explore the cooperative idea which has generally worked well for the agricultural sector. Fundamental to the success of this strategy is a vigorous effort to educate public and private sector consumers as to the nature, causes and consequences of economic linkages and the trade-offs between lower priced goods purchased and made outside the community, as opposed to purchases of possibly higher-priced goods from local suppliers or producers. Such a strategy will also require in many states some revamping of state regulations pertaining to purchasing and bidding. State governments must also reorient their purchasing to promote state businesses and producers, particularly businesses owned by state residents.

Nonmetropolitan communities can also work to develop agreements to purchase and hire locally if newly located or expanding manufacturing facilities receive development subsidies or assistance. Although this can scare some companies away, it need not if approached in a positive and sophisticated way. If phrased as "just good business" for the city, such a strategy can work to help maximize development impacts.

Another strategy which can enhance local linkages is to encourage the development of facilities to capitalize on the backward and forward linkage needs of existing and new production facilities. Branch plants typically are locked into purchasing inputs from company-identified sources. However, if the area has a comparative advantage for some input, this option should be explored. Likewise, if there are production by-products, or if the facility makes an intermediate product, the development of final product or by-product facilities should be examined. Such strategies will work best when facilities are locally owned, but sometimes detailed planning and proposals for additional local support facilities can overcome

BEST COPY AVAILABLE

the built-in decision biases of multi-establishment corporations.

Local entrepreneurial skills must also be developed. One of the best uses of local development resources is to encourage existing local entrepreneurs, and to develop new ones. This might encompass encouraging small, fledgling business to expand, when feasible, as well as helping new business start-ups. Such enterprises are likely to be locally owned, have local ties and benefit the area through purchases and employment. Again, some communities might say the options are limited; this is simply not accurate -- a new production facility of as few as 5 or 10 jobs can be a significant addition to the employment base of a town of 500 to 1,000 residents. Although new and small businesses are generally risky (e.g., short-lived, subject to production ups-and-downs, lower wages), they are locally rooted and will be likely to develop and maintain local linkages.

Capitalizing on Development Spin-Offs

Nonmetropolitan economic development efforts must also focus on capitalizing on economic development spin-offs. If this can be accomplished, the ability of metropolitan areas to profit at the expense of nonmetropolitan residents and communities will be reduced. One obvious strategy is to capitalize on one of the most extensive development resources of nonmetropolitan areas -- the land and its productive capacities. Many nonmetropolitan communities are located in the midst of agricultural land, equipment and facilities which are owned by local residents. Efforts should focus on industries, production processes and goods which draw upon the land and its local ownership. Farm operators could be linked with production facilities for many food goods. For example, mushroom farming is often vertically integrated, with a large corporation handling the development of the growing medium, as well as raising and processing the product. Why not have local farmers grow mushrooms in idle or little used farm buildings and sell them to a local processing operation? The success of such a venture would depend upon farmers' being efficient and selling at lower rates than would be found under the corporate model. While this might be viewed as taking advantage of farmers by some individuals, the family-farm literature indicates that farm operators want to produce food -- to farm. Low wage activities, whether they be new lines of food production such as mushroom farming, or whether they be off-farm jobs, can produce significant gains in the size and stability of net farm family income. Success in this strategy will require extensive work on the part of the land-grant system of extension centers and advisers to encourage farmers to diversify their production plans and to think of new ventures.

Related to this, nonmetropolitan communities in farming areas should capitalize on the availability of labor for jobs that might be considered by many locations as "marginal." Thus, low wage, low skill, seasonal facilities might be recruited to take advantage of a comparative advantage of rural, farming areas -- farm operators who are looking for a way to supplement their primary income. Such a strategy will also stabilize small, nonmetropolitan communities dependent upon the farming sector (Smith, 1985).

BEST COPY AVAILABLE

As noted earlier, attention should be given to local entrepreneurship, whether it be helping existing local enterprises to expand, or helping new businesses to start up. Targeting local development resources upon these activities will be the most likely way to ensure that the "profits" of economic development are reinvested in the nonmetropolitan community. Rather than forcing local entrepreneurs to seek financing outside the area, give them assistance priority. Subsidize them, but structure the agreement so that some return (profit) is produced for a revolving loan fund, for example, through the return of the principal and some interest. Profits, then, can go into other development-related projects and activities.

The growing population of older adults in many nonmetropolitan communities provides another opportunity for capitalizing on development spin-offs. Although senior citizens do not generally work in so-called wage paying jobs, they do receive transfer payments from both private and public sources. This income enters the community, circulates, and buys the same goods and services as any other income. Facilities such as nursing and retirement homes, apartments, recreation and activity centers, and other programs can be targeted to enhance and retain this growing sector of the population, particularly in nonmetropolitan areas. While senior citizens present new service challenges, they provide much volunteer help for community activities, and they tend to consume many services at somewhat lower levels than younger individuals and families.

Minimizing Direct Public Subsidies of New Industry

Nonmetropolitan communities must also make every effort to identify the costs and benefits of economic development projects prior to committing public resources directly to such ventures. While the exact mix of costs and benefits will depend upon the specific goals and nature of a given location's economic development program, they must be examined. Assuming that any industrial development will produce both individual and community net fiscal gains is extremely risky. Furthermore, community fiscal losses can wipe out individual gains from industrial development. In this regard, communities must develop the capacity and procedures for evaluating development proposals, particularly when they call for public subsidies or assistance. Because local capacity is typically inadequate in nonmetropolitan areas, state government development agencies, university public service and research organizations and federal agencies such as USDA and HUD must provide technical assistance and capacity-building in these skills.

Most important, however, is that nonmetropolitan communities develop and make use of alternative mechanisms for financing economic development programs and facilities (when they are necessary to acquire a facility or ensure an expansion). Because the days of federal subsidies, loans, and public works monies for local development efforts are rapidly coming to a close, local communities will have to bear a larger burden of the costs of development. This makes it all the more important to cost out development projects. More important, efforts to minimize the size of direct dollar outlays must take precedence above other considerations since keeping public subsidies to a minimum can enhance the likelihood of multiplier effects adequate for net fiscal gains to communities and residents.

BEST COPY AVAILABLE

Particularly promising are lesser-used financing techniques such as tax increment financing and special service area financing, among others. Tax increment financing involves the adoption of a redevelopment plan for a specific geographical area, the "freezing" of equalized property taxes for the area at the level of the last tax year, and the pledging of tax increments resulting from new development in the area to projects on a pay-as-you-go basis, or to pay off tax anticipation notes or tax allocation bonds which permit the city to raise money prior to development. Tax increment financing, then, lets projects or project areas generate their own funding; direct public subsidies are minimized. Special service area financing represents another option for supporting nonmetropolitan economic development. Under this mechanism a municipality or county designates a local area to be a "special service area" to provide a localized "governmental service." Bonds may be issued to finance the project and are payable from taxes levied solely in that area. Typically, improvements and facilities must be owned by local governments. This mechanism is used to improve shopping districts, as well as industrial parks and improvements such as roads, utilities, and buildings. These represent just a few of the financing techniques which nonmetropolitan communities can utilize to minimize the fiscal risks and burdens of development. While there are liabilities associated with these techniques, the same is true for the more frequently used approaches, as well.

In conclusion, while the economic constraints upon nonmetropolitan areas are numerous and complex, they can be identified and sorted out. Economic developers, elected decision makers and interested residents must work to better understand the forces which affect nonmetropolitan economic development and growth processes. A firm grasp of the present will provide a better map for achieving future goals.

BEST COPY AVAILABLE

Footnotes

1. The author is currently identifying community and area case studies of metropolitan and nonmetropolitan economic development in an effort to conduct such an analysis.

2. This section draws upon my work which more broadly explores the development and influences of multi-establishment corporations. See, "Interdependencies in Urban Economic Development: The Role of Multi-Establishment Corporations," in D.R. Judd (ed), Public Policy Across States and Cities (New York: JAI Press, forthcoming, 1985).

3. There are a number of routes to achieving economic development goals. For an overview of economic development goals, strategy and organizational choices for small communities see, H. Gudell and R.L. Smith, "The Local Economic Development Process," in J.M. Banovetz (ed), Small Cities and Counties: A Guide to Managing Services (Washington, D.C.: International City Management Association, 1984).

4. Schmenner grouped two-digit manufacturing industries into nine broad categories. They are:

INDUSTRY GROUP	SIC CODE	INDUSTRY
Agriculture-Tied	201	Meat products
	203	Canned/preserved fruits and vegetables
	204	Grain mill products
	206	Sugar and confectionery products
	207	Fats and oils
	21X	Tobacco
Market-Sensitive	202	Dairy products
	205	Bakery products
	208	Beverages
	209	Miscellaneous food preparations
	264	Converted paper and paperboard
	265	Paperboard containers and boxes
	266	Building paper and building board mills
	27X	Printing
	295	Paving and roofing materials
	307	Plastics products
	341	Metal cans and shipping containers
	39X	Miscellaneous manufacturing (jewelry, silverware, musical instruments, toys, pens and pencils, brooms and brushes, sporting goods, signs, notions, caskets)

BEST COPY AVAILABLE

Forest-Tied	24X	Lumber and wood products
	261	Pulp mills
	262	Paper mills
	263	Paperboard mills
Labor Rate-Sensitive	22X	Textile mill products
	23X	Apparel and other fabrics products
	25X	Furniture
	31X	Leather goods
	363	Household appliances
	364	Electric lighting and wiring
	365	Radio and TV receivers
Heavy Chemicals/Oil/ Rubber/Glass	281	Industrial inorganic chemicals
	282	Plastics materials and resins
	286	Industrial organic chemicals
	287	Agricultural chemicals
	291	Petroleum refining
	299	Miscellaneous petroleum and coal products
	301	Tires and inner tubes
	302	Rubber and plastics footwear
	303	Reclaimed rubber
	304	Rubber and plastics hose and belting
	306	Other fabricated rubber products
	32X	Stone, clay, glass, and concrete products
Specialty Chemicals/	283	Drugs Metals
	284	Soap, detergents, cosmetics, etc.
	285	
	289	Miscellaneous chemicals products (adhesives, inks, etc.)
	342	Cutlery, hand tools, and hardware
	347	Coating, engraving
	348	Ordnance
	349	Miscellaneous fabricated metals (springs, pipe fittings, foil)
Heavy Metals	33X	Primary metals
	343	Heating equipment and plumbing fixtures
	344	Fabricated structural metal products
	345	Screw machine products, bolts, nuts, etc.
	346	Metal forgings and stampings
Industrial Machinery/ Transportation Equipment	351	Engines and turbines
	352	Farm and garden machinery
	353	Construction, mining, and materials

BEST COPY AVAILABLE

		handling machinery
	354	Metalworking machinery
	355	Special industry machines (food, textile, lumber, paper, printing, etc.)
	356	General industrial machinery (pumps, bearings, compressors, etc.)
	358	Refrigeration and service industry machinery
	359	Miscellaneous machinery
	361	Electric transmission and distribution equipment
	362	Electrical industrial apparatus (motors, welding)
	369	Miscellaneous electrical machinery (batteries, etc.)
	371	Motor vehicles
	372	Aircraft
	373	Shipbuilding
	374	Railroad equipment
	375	Motorcycles and bicycles
	379	Miscellaneous transport equipment (trailers, tanks)
High Technology	357	Computers and office equipment
	366	Communication equipment
	367	Electronic components
	376	Guided missiles and space vehicles
	38X	Instruments (measuring, analyzing, controlling, photographic, medical, clocks)

BEST COPY AVAILABLE

1236 COPY AVAILABLE

References

Bachelor, L. (1982) "Reindustrialization in Detroit: Capitol Mobility and Corporate Influence." Journal of Urban Affairs. 4:35-50.

Beale, C.I. (1981) Rural and Small Town Change, 1970-1980. Washington, D.C.: Economics and Statistics Service, U.S. Department of Agriculture.

Berry, B.J. (1973) Growth Centers in the American Urban System, 2 vols. Englewood Cliffs, N.J.: Prentice-Hall.

Birch, D.L. (1979) The Job Generation Process. Cambridge, Mass.: MIT Program on Neighborhood and Regional Change, Massachusetts Institute of Technology.

Boudeville, J.R. (1966) Problems of Regional Economic Planning. Edinburgh: The University Press.

Brinkman, G.L. (1973) "Effects of Industrializing Small Communities." Journal of the Community Development Society. 4:69-80.

Clemente F. and G.F. Summers (1973) Large Industries in Small Towns: Who Benefits? Madison: Center for Applied Sociology, University of Wisconsin.

Deaton, B.J. and M.R. Landes (1978) "Rural Industrialization and the Changing Distribution of Family Incomes." American Journal of Agricultural Economics. 60:950-54.

Duncan, et al. (1960) Metropolis and Region. Baltimore, Md.: Johns Hopkins Press.

Earickson, R.A. (1975) "The Spatial Pattern of Income Generation in Lead Firm, Growth Area Linkage Systems." Economic Geography. 51:17-26.

Eichner, A.S. (1970) State Development Agencies and Employment Expansion. Ann Arbor: Institute of Labor and Industrial Relations, The University of Michigan-Wayne State University.

Friedland, R. (1982) Power and Crisis in the City: Corporations, Unions and Public Policy. New York: Schocken.

Galtung, J. (1971) "A Structural Theory of Imperialism." Journal of Peace Research. 2:81-117.

Gras, N.S.B. (1922) An Introduction to Economic History. New York: Harper and Brothers Publishing.

Gray, I. (1969) "New Industry in a Rural Area." Monthly

BEST COPY AVAILABLE

Labor Review. 92:26-30.

Gudell, H.A. and R.L. Smith (1984) "The Local Economic Development Process," in J.M. Banovetz (ed). Small Cities and Counties: A Guide to Managing Services. Washington, D.C.: International City Management Association.

Harrison, B. and S. Kanter (1978) "The Political Economy of State Job-Creation Business Incentives." Journal of the American Institute of Planners.

Hawley, A.H. (1950) Human Ecology. New York: Ronald Press.

Larson O.F. (1981) "Agriculture and the Community," in A.H. Hawley and S.M. Mazie (eds). Nonmetropolitan America in Transition. Chapel Hill: University of North Carolina Press.

Lincoln, J.R. (1977) "Organizational Dominance and Community Structure," in R. Liebert and A.W. Imersheim (eds). Power, Paradigms and Community Research. Beverly Hills, California: Sage.

Lloyd, P.E. and P. Dicken (1977) Location in Space, 2d ed. New York: Harper and Row.

Lovejoy, S.B. and R.S. Krannich (1982) "Rural Industrial Development and Domestic Dependency Relations: Toward an Integrated Perspective." Rural Sociology. 47:475-95.

Menchik, M.C. (1981) "The Service Sector," pp. 231-254 in A.H. Hawley and S.M. Mazie (eds). Nonmetropolitan America in Transition. Chapel Hill: The University of North Carolina Press.

Mintier, J.L. (1983) Measuring Historic Preservation's Impact on States: A Study of California's Historic and Cultural Resources. Washington, D.C.: National Trust for Historic Preservation.

Odle, M. and C. Armington (1982) "Small Businesses--How Many Jobs?" The Brookings Review.

Pappenfort, D.M. (1959) "The Ecological Field and the Metropolitan Community: Manufacturing and Management." American Journal of Sociology. 64:380-85.

Pred, A. (1977) City-Systems in Advanced Economies. New York: Wiley.

Putz, P.M.S. Waite and D. Jahr (1979) "The Impact of South Dakota Historic Sites on Tourist Activity." South Dakota Business Review. 37:2-3, 6.

Rees, J. (1978) "Manufacturing Change, Internal Controls and Government Spending in a Growth Region of the U.S.A." pp. 154-174 in F.E.I. Hamilton (ed). Industrial Change: International Experience and Public Policy. London: Longman.

BEST COPY AVAILABLE

Rees, J. (1980) "Government Policy and Industrial Location in the United States," in Conglomerate Mergers--Their Effects on Small Business and Local Communities, Hearings before the Subcommittee on Antitrust and Restraint of Trade Activities Affecting Small Business of the Committee on Small Business, House of Representatives, 96th Congress, 2d Session. Washington, D.C.: GPO.

Robinson, E.A.G. (1969) Backward Areas in Advanced Countries. London: MacMillan.

Schmenner, R.W. (1980) The Location Decisions of Large Multiplant Companies. Washinton, D.C.: U.S. Department of Housing and Urban Development.

Schmenner, R.W. (1982) Making Business Location Decisions. Englewood Cliffs, N.J.: Prentice-Hall.

Shaffer, R.E. and L.G. Tweeten (1974) Economic Changes from Industrial Development in Eastern Oklahoma. Agricultural Experiment Station Bulletin B-715. Stillwater: Oklahoma State University.

Sheets, R., R.L. Smith and K. Voytek (forthcoming, 1985) "Corporate Disinvestment and Metropolitan Manufacturing Job Loss." Social Science Quarterly.

Smith, R.L. (forthcoming, 1985) "Interdependencies in Urban Economic Development: The Role of Multi-Establishment Corporations," in D.R. Judd (ed). Public Policy Across States and Cities. New York: JAI Press.

Smith, R.L. (1985) "Adapting Local Government to a Changing Rural South Dakota." Paper prepared for Hearings Conducted by the Joint Economic Committee, 99th Congress on "Outlook for the South Dakota Rural Economy." Washington, D.C.: Joint Economic Committee.

Summers, G.F. et al., (1976) Industrial Invasion of Nonmetropolitan America: A Quarter Century of Experience. New York: Praeger Publishers.

Till, T.E. (1981) "Manufacturing Industry: Trends and Impacts," pp. 194-230 in A.H. Hawley and S.M. Mazie (eds.) Nonmetropolitan America in Transition. Chapel Hill: The University of North Carolina Press.

Tweeten, L. and G.L. Brinkman (1976) Micropolitan Development. Ames: Iowa State University Press.

U.S. Department of Agriculture (1972) Impact of Job Development on Poverty in Four Development Areas, 1970. Agricultural Economic Report 225. Washington, D.C.: Economic Research Service, U.S. Department of Agriculture.

U.S. Department of Commerce (1978) Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1977 and 1970.

BEST COPY AVAILABLE

Current Population Reports, Special Studies P-23, No. 75. Washington, D.C.: Bureau of the Census, U.S. Department of Commerce.

U.S. Department of Commerce (1982) Local Area Personal Income, 1975-1980, Vol. 1, Summary. Washington, D.C.: Bureau of Economic Analysis, U.S. Department of Commerce.

U.S. Department of Commerce (1983) General Social and Economic Characteristics, U.S. Summary. Washington, D.C.: Bureau of the Census, U.S. Department of Commerce.

Winsborough, H.M. (1960) "Occupational Composition and the Urban Hierarchy." American Sociological Review. 25:894-97.

EST COPY AVAILABLE